

Main weaknesses and difficulties of the EU VAT System

- The objective of neutrality is essential to the quality (and efficiency) of the VAT system
- This implies:
 - the widest possible scope for VAT;
 - a systematic right to input VAT deduction
- Limitations in the scope of EU VAT
 - Public bodies (authorities);
 - Out-of-scope supplies: restrictive terminology or interpretation may result in supplies being placed out of the scope of VAT (ECJ “direct and immediate link “ between a supply and a payment, financing of economic activities);
 - Out-of-scope suppliers: SME’s, mutual organizations, holdings;
 - Exemptions for certain activities in the public interest (merit goods and services);
 - Technical exemptions (Financial services, Insurances, Immovable property; Gambling);

Treatment of specific supplies under traditional and modern VAT systems

Source: “Ending VAT exemptions”: Rita de la Feria/Rick Krever ; Oxford Centre for Business taxation, WP 12/28

TABLE 1: TREATMENT OF SPECIFIC SUPPLIES UNDER TRADITIONAL, MODERN AND POST-MODERN VAT

	TRADITIONAL VAT		MODERN VAT	POST-MODERN VAT
	TREATMENT	RATIONALE	TREATMENT	TREATMENT
NO DIRECT CONSIDERATION	Out-of-scope supplies	Out-dated legal wording and judicial interpretation	Full taxation	Full taxation
SMES	Out-of-scope suppliers (varying thresholds)	Vertical equity vs. widening of tax base	Out-of-scope suppliers (varying thresholds)	Out-of-scope suppliers (high threshold)
NON-BUSINESS ENTERPRISES	Out-of-scope suppliers	Out-dated legal wording and judicial interpretation	Full taxation	Full taxation
PUBLIC SECTOR BODIES	Out-of-scope suppliers	Out-dated legal wording and judicial interpretation	Full taxation model	Full taxation
MERIT GOODS AND SERVICES	Exempt	Vertical equity Positive externalities	Full taxation (or exempt or zero-rated)	Full taxation
IMMOVABLE PROPERTY	Exempt (option to tax commercial property)	Difficult-to-tax	Full taxation of commercial property Exemption of residential property (except first sale)	Full taxation of commercial property First sale of residential property taxable
FINANCIAL INTERMEDIARY SERVICES	Exempt (option to tax)	Difficult-to-tax	Exemption model Zero-rating of B2B model	Full taxation
NON-LIFE INSURANCE SERVICES	Exempt	Difficult-to-tax	Full taxation	Full taxation
GAMBLING	Exempt	Difficult-to-tax	Full taxation	Full taxation (margin model)